

STATE OF VERMONT
PUBLIC SERVICE BOARD

INVESTIGATION INTO GENERAL ORDER NO. 45)
NOTICE FILED BY VERMONT YANKEE NUCLEAR) Docket No. 6545
POWER CORPORATION RE: PROPOSED SALE)
OF VERMONT YANKEE NUCLEAR POWER)
STATION AND RELATED TRANSACTIONS)

SUPPLEMENTAL TESTIMONY IN SUPPORT OF
MEMORANDUM OF UNDERSTANDING

ANDREA C. CRANE

ON BEHALF OF

THE DEPARTMENT OF PUBLIC SERVICE

March 11, 2002

Summary: Ms. Crane's testimony addresses why she believes that the Memorandum of Understanding adequately addresses the financial concerns expressed in her Direct Testimony.

1

2 **Q. Please state your name and business address.**

3 A. My name is Andrea C. Crane and my business address is 38C Grove Street, Ridgefield,
4 Connecticut 06877.

5

6 **Q. Did you previously file testimony in this proceeding?**

7 A. Yes, on January 7, 2002, I filed testimony on behalf of the State of Vermont, Department of
8 Public Service (“Department” or “DPS”). My Direct Testimony addressed the organizational
9 relationships proposed among ENVY, its parent and its affiliates, specifically with regard to:
10 1) the appropriateness of the organizational design and; and 2) additional safeguards that may
11 be necessary in order to ensure that ENVY has access to the capital required to meet its
12 service and contractual obligations.

13

14 **Q. What is the purpose of your Supplemental Testimony in this case?**

15 A. The purpose of my Supplemental Testimony is to support the Memorandum of Understanding
16 (“MOU”) executed between the Department and the Petitioners. I will address the reasons
17 why I believe that the MOU adequately addresses the concerns raised in my Direct
18 Testimony.

1
2 **Q. What recommendations did you make in your Direct Testimony?**

3 A. The principal concern expressed in my Direct Testimony was that the financial assurances and
4 lines of credit proposed pursuant to the Application were insufficient. Specifically, I
5 recommended that as a condition of the Board approving the sale of the Vermont Yankee
6 Nuclear Generating Facility (“VY”) to Entergy Nuclear Vermont Yankee, LLC (“ENVY”),
7 the Board should require Entergy Corporation to provide a financial guarantee for ENVY that
8 provides ENVY with sufficient funds to cover at least one year of expenses for VY. In
9 addition, I recommended a separate line of credit of \$35 million to be used for working capital
10 by ENVY. I also recommended that the Board should be kept informed of ENVY’s financial
11 position including its use of lines of credit and other financial guarantees. Moreover, I
12 recommended that the Board should be provided with full and complete disclosure of all
13 current financial obligations of Entergy Corporation and its affiliates, including off-balance
14 sheet obligations, in order to determine the parent company’s overall financial strength.
15 Finally, I recommended that ENVY should agree to limit its dividends to its parent to 50%
16 of net income for the first three years of operation and that ENVY should agree to receive
17 Board approval prior to making any loans to affiliates.

18

19

1 **Q. Have you reviewed the MOU and those exhibits to the MOU that relate to financial**
2 **assurances?**

3 A. Yes, I have reviewed the MOU as well as Exhibit B (Entergy Corporation Guarantee) and
4 Exhibit C (Inter-Company Credit Agreement) to the MOU.

6 **Q. Do you believe that the MOU and supporting exhibits adequately address the concerns**
7 **raised in your Direct Testimony?**

8 A. Yes, I do. The MOU provides for an Entergy Corporation guarantee, as recommended in my
9 Direct Testimony. This provision resolves the concerns expressed in my Direct Testimony
10 regarding the credit-worthiness of Entergy International Holdings, Ltd., LLC (“EIHL”) and
11 Entergy Global Investments, Inc. (“EGI”), the two corporate entities that will provide
12 financing, if necessary, to ENVY. EGI will provide ENVY with a working capital credit line
13 of \$35 million while EIHL will provide an additional credit line of \$35 million which is not
14 intended to be used in the normal course of business but instead is intended to be utilized only
15 in the event of a problem at the facility.

16 As expressed in my Direct Testimony, I had concerns about both the source of the
17 credit lines and the amount of the credit lines. The Entergy Corporation guarantees
18 effectively eliminates the first concern.

19 With regard to the amount of the Entergy Corporation guarantee, I recommended that

1 the line of credit should be sufficient to cover at least one year of operating expenses between
2 an unplanned outage and a premature shutdown of the plant while the proposed financial
3 guarantees offered by EIHL and EGI were based covering expenses for a period of only six
4 months, which is the planning horizon used by the Nuclear Regulatory Commission (“NRC”)
5 when it reviews the financial integrity of a nuclear plant operator. My recommendation to
6 require at least one year, rather than six months, of expenses was largely based on the fact
7 that many nuclear units have been out of service for periods exceeding one year, and later
8 returned to service. However, I also testified that, in the event of a problem at the facility,
9 I believe Entergy Corporation would make a determination to shut down the facility more
10 quickly than its current owners. In his Rebuttal Testimony, Mr. Keuter confirmed this belief,
11 testifying that,

12 Based on my experience, I do not anticipate that there will be
13 a lengthy delay in the Entergy’s decision-making process to fix
14 or close the VY Station in the event of an unforeseen problem
15 at the plant. One of the values Entergy brings to the operation
16 of the VY Station is that we have broad resources and
17 expertise in operating -- and decommissioning -- nuclear
18 power plants. Faced with an unforeseen problem, we would
19 be able to act quickly to assess the problem and determine
20 whether it makes economic sense to fix it or permanently shut
21 down.¹

22
23 Given the fact that Entergy Corporation is likely to act more quickly than current owners to
24 shut down a facility in the event of a problem, the six month financial guarantees provided in

¹ Rebuttal Testimony of Mr. Keuter, page 10.

1 the MOU are likely to be sufficient to meet any unplanned contingency. Department witness
2 William Sherman also addresses the adequacy of the financial assurances in his Supplemental
3 Testimony.

4
5 **Q. Are the Entergy Corporation guarantees in addition to the lines of credit available from**
6 **EIHL and EGI?**

7 A. Depending on the amounts that have already been drawn down from EIHL and EGI by
8 ENVY, the Entergy Corporation guarantees may be incremental to the EIHL and EGI credit
9 lines. As stated in Exhibit B to the MOU,

10 The undersigned further agrees that in the event ENVY makes a
11 determination that it will permanently cease VY operations and at the
12 time of such determination, the credit available under the Working
13 Capital Credit Agreement is less than \$25 million, the undersigned will
14 make available to ENVY as working capital an amount equal to the
15 differences between \$25 million and the amount available under the
16 Working Capital Credit Agreement and if at such time, the amount
17 available under the Financial Assurances Credit Agreement is less than
18 \$35 million, the undersigned will make available to ENVY as financial
19 assurance an amount equal to the difference between \$35 million and
20 the amount available under the Financial Assurance Credit Agreement.

21
22
23 These provisions address the concern raised in my Direct Testimony that under ENVY's
24 original proposal, considerably less than \$70 million could be available should the need arise.
25 For that reason, I had recommended that an Entergy Corporation guarantee be given to
26 ENVY in addition to the \$35 million working capital line to be provided by EGI. Exhibit B

1 to the MOU ensures that up to \$60 million from Entergy Corporation would be available to
2 ENVY regardless of the amounts previously drawn down from EIHL and EGI.

3
4 **Q. Were there other problems with the proposed financing agreements as originally**
5 **structured?**

6 A. Yes, there were. As stated in my Direct Testimony, originally the letter of credit from EIHL
7 for \$35 million terminated and all loans extended under the agreements became payable if
8 “ENVY has permanently ceased operations at the Vermont Yankee Plant².” Pursuant to the
9 revised letter of credit provided in Exhibit B, the Letter of Credit will remain in effect until
10 the earlier of:

11 (i) ENVY having submitted to the NRC a written certification
12 required by 10 CFR Section 50.82(a)(1) that the fuel has been
13 permanently removed from the reactor vessel of the Vermont
14 Yankee Plant and ninety (90) days have passed since the NRC
15 has received the post-shutdown decommissioning activities
16 report (“PSDAR”); or (ii) the NRC has given written approval
17 of the discontinuance or termination of this Agreement.
18

19 These provisions strengthen the terms of the Letter of Credit and should provide additional
20 assurances to the Board that the credit will be available, if needed.

21
22 **Q. Does the MOU adopt your recommendation that the Board be notified in the event that**

² Exhibit MRK-4, page 9.

1 **ENVY draws upon its credit lines?**

2 A. Yes, it does. According to paragraph 13 of the MOU, ENVY will notify the Board and the
3 Department promptly in the event that it draws upon the Financial Assurances Credit
4 Agreement with EIHL. In addition, the Company will report to the Board and the
5 Department semi-annually on amounts drawn upon the Working Capital Credit Agreement.

6
7 **Q. Did the Company provide information on off-balance sheet guarantees and liabilities**
8 **in its Rebuttal Testimony, as you recommended?**

9 A. Yes, in her Rebuttal Testimony, Ms. O'Connell provided some information about these
10 activities and the potential exposure to Entergy Corporation. Additional information also was
11 provided to the Department. Based on this information, it appears that Entergy does not have
12 a substantial exposure with regard to these transactions relative to the total equity in the
13 Company.

14
15 **Q. Does the MOU contain dividend and loan restrictions that you recommended in**
16 **your Direct Testimony?**

17 A. No, it does not. All settlements are the product of negotiations and invariably there are
18 compromises must be made. In view of the current financial position of Entergy
19 Corporation, and in view of the fact that the MOU contains virtually all other

1 recommendations contained in my testimony, I do not view the absence of dividend or
2 loan restrictions to be a material impediment to settlement. In addition, the MOU should
3 be evaluated in total, with consideration given to all aspects of the proposed settlement.
4 Clearly, the MOU provides additional benefits to ratepayers in areas that were addressed
5 by other Department witnesses in Direct Testimony.

6
7 **Q. Based on your review of the MOU, do you believe that it adequately protects**
8 **ratepayers against financial harm as a result of the proposed acquisition?**

9 A. Yes, I do. The modifications made to the Company's original proposal with regard to
10 parent company guarantees and other issues provide adequate financial assurance to
11 ratepayers, given the current financial status of Entergy Corporation. Accordingly, I
12 recommend that the Board adopt the MOU.

13
14 **Q. Does this conclude your testimony?**

15 A. Yes, it does.